



## Early Journal Content on JSTOR, Free to Anyone in the World

This article is one of nearly 500,000 scholarly works digitized and made freely available to everyone in the world by JSTOR.

Known as the Early Journal Content, this set of works include research articles, news, letters, and other writings published in more than 200 of the oldest leading academic journals. The works date from the mid-seventeenth to the early twentieth centuries.

We encourage people to read and share the Early Journal Content openly and to tell others that this resource exists. People may post this content online or redistribute in any way for non-commercial purposes.

Read more about Early Journal Content at <http://about.jstor.org/participate-jstor/individuals/early-journal-content>.

JSTOR is a digital library of academic journals, books, and primary source objects. JSTOR helps people discover, use, and build upon a wide range of content through a powerful research and teaching platform, and preserves this content for future generations. JSTOR is part of ITHAKA, a not-for-profit organization that also includes Ithaka S+R and Portico. For more information about JSTOR, please contact [support@jstor.org](mailto:support@jstor.org).

PROBABLE CHANGES IN THE FOREIGN TRADE OF  
THE UNITED STATES RESULTING FROM  
THE EUROPEAN WAR

By EMORY R. JOHNSON  
*The University of Pennsylvania*

International commerce is subject to world-wide competition, and the success achieved by any country in foreign trade depends upon the four well-known factors of efficiency in production, skilful methods of merchandising, adequate international banking facilities, and economical means of transportation by land and sea.

The prerequisite of a large trade with foreign countries is diversification and efficiency in production, and this, in turn, is the result of a territorial division of labor and industry that enables each section of the country to engage in those activities for which it is best equipped as regards climate, resources, and labor supply. It is when the productive energies of a country are so organized that all the various resources are intelligently utilized, and that labor and capital are applied where they will produce the best results, that an annual output of maximum volume may be secured at a minimum unit cost.

To enable a country as large as the United States to engage, with all its resources and energies, in industrial competition with other countries and sections of the world, its domestic industries and its foreign trade must be served by adequate and economical means of transportation by land and sea. The country as a whole needs to be supplied with railways, such inland waterways as fulfill present-day transportation requirements need to be improved or provided, and the rail and water routes need to be so coördinated and their management and use so regulated as to make it possible for all parts of the country capable of settlement and development to engage, so far as their natural resources permit, in the production of those commodities that the country can profitably exchange for the foods, materials, and wares of other countries.

It seems important, in discussing the probable effects of the European War upon the foreign commerce of the United States, to emphasize the fact (here briefly stated because it is a commonplace with economists) that neither a larger opportunity to trade abroad, nor the development of ocean transportation and international banking facilities will necessarily be followed by a large

growth in the country's foreign commerce. The attainment of absolute and relative efficiency in production should be kept in view by business men and by the government in plans made to secure for the United States the commercial advantages obtainable as a result of the European War.

It is evident that the war has begun to change the attitude of business men and the policy of the government towards foreign trade. There is a greater realization of the importance of foreign commerce and a clearer appreciation of some of the requirements to be met in securing and holding a larger foreign commerce. This change in the attitude of the American people towards trade with other countries is, in part, a result of certain purely temporary effects of the war. The unprecedented opportunity afforded American producers by the sudden outbreak of a war involving the countries which carry on the major share of the world's international commerce, the large increase in the exports and imports of the United States and the consequent profits from this greater trade, and the rapid increase in the output of foods, materials, and manufactures to meet the abnormal foreign demand gave the people of this country the greatest object lesson they have ever had concerning the possibilities of foreign trade and the ability of American industries to meet the demands of foreign buyers.<sup>1</sup>

The experiences of the past year have also given business men and public officials of the United States a forceful demonstration of the simple economic truth that a large increase in the volume of exports can not long continue without a corresponding increase in imports. For several months the balance of trade has been so "favorable" as seriously to hamper the commerce of the United States with other countries.

The fact has also been brought home to the people of the United States that the market for American goods in foreign countries is limited by the ability of foreign buyers to secure the means of

<sup>1</sup> It is not deemed necessary in this paper to present a statistical analysis of the effects of the war upon the export and import trade during the year ending June 30, 1915. Such an analysis has been made in an article published in *Modern Business Supplement*, 3d quarter, 1915, issued by the Alexander Hamilton Institute, New York City. Dr. G. G. Huebner in a paper read before the Academy of Political Science in the city of New York and published in its *Proceedings* has pointed out statistically the changes that the war caused in the foreign commerce during the fiscal year 1914-15. The publications of the United States Bureau of Foreign and Domestic Commerce contain detailed statistics of the foreign commerce of the United States.

payment for the commodities they may desire to purchase. Although South American countries were unable to purchase commodities in Europe, they did not and could not buy more largely in the United States, because their financial dependence upon Europe was so great that the war caused a serious disturbance of financial conditions in South America and greatly reduced the purchasing power of the people of that continent. American producers not being disposed to render South American countries the financial assistance they had been receiving from Europe, those countries were unable to maintain their normal industrial activity or their usual volume of foreign trade.

Another lesson that the European War has already taught American producers is the need of a greater diversification of the industries in this country, and the use, for industrial purposes, of some important materials and resources that are now wasted or unused. The textile industries and other lines of production have, in the past, been to a large extent dependent upon foreign supplies of dyes and chemicals. Chemists say that these dyes and chemicals can be manufactured in the United States as well as they are made abroad, although temporarily at a higher cost than foreigners can furnish the products. It is said that a large initial investment of capital is necessary to establish and maintain a plant for the manufacture of dyes. The present duties on coal-tar products other than dyes are ten per cent *ad valorem* and are thirty per cent on coal-tar dyes, but these duties are said by chemists and manufacturers to be too low to give necessary protection against foreign competition. Apparently, it would be well to afford adequate temporary protection to dyes of various kinds during the early years of their manufacture in this country.

One of the recognized limitations upon the development of foreign markets has been the ineffective merchandising methods followed by American exporters. In spite of a long continued campaign as to the necessity of the adoption by American exporters of the methods employed by Europeans in the sale of goods in foreign markets, only a few of the large concerns, like the Standard Oil Company, the United States Steel Corporation, and some others have found it advisable to adopt the methods which experience seems to have proven necessary to follow in order to sell American goods in South American and other foreign countries successfully in competition with foreign commerce.

The European War has, however, so impressed the business men

of this country with the possibilities of foreign trade that business organizations are now giving greatly increased attention to methods of marketing American products abroad. The National Foreign Trade Council, which was organized in 1914, is concerning itself with the problem of how to secure a larger merchant marine. The National Association of Manufacturers, the American Manufacturers Export Association, the Chamber of Commerce of the United States, and other more local organizations are considering what needs to be done to bring about the development of foreign trade and the increase of the merchant marine.

The larger interests which the Federal Government is taking in foreign commerce is evidenced by the present activities of the Federal Trade Commission, which is investigating the advisability of permitting American producers to form associations or combinations to maintain foreign sales agencies. If the investigation leads to an affirmative conclusion on the part of the commission, that body will doubtless ask Congress so to amend the Sherman Anti-Trust Act as to permit the formation of associations or combinations for the management of foreign trade. The Bureau of Foreign and Domestic Commerce is conducting an increasingly active campaign in the interest of foreign trade development. The publications of the bureau and the addresses of its chief have laid emphasis upon the trade possibilities created by the European War.

The war has brought about the establishment of foreign branches by at least one large national bank. Before the war began, the Federal Reserve Act provided that: "Any national banking association possessing a capital and surplus of \$1,000,000 or more may file application with the Federal Reserve Board, upon such conditions and under such regulations as may be prescribed by the said board, for the purpose of securing authority to establish branches in foreign countries or dependencies of the United States for the furtherance of the foreign commerce of the United States."

Acting on the authority thus conferred, the National City Bank of New York has established three branches in Brazil, one in Argentina, one in Uruguay, and one in Cuba. While this is an encouraging beginning, it is only the first step. The successful financing of the future foreign trade of the United States calls for the establishment, by numerous strong American banks, of branches in different parts of the world. It is to be hoped that the experiment of the National City Bank will be so profitable as to cause other strong banks to establish foreign branches.

Mr. William S. Kies, of the National City Bank, is authority for the statement that over one hundred European banks have established branches in foreign countries.<sup>2</sup> The number of such branches is said to exceed two thousand. There are more than one hundred in South America, about three hundred in Asia, four hundred in Africa, and more than seven hundred in Australia, New Zealand, and the Pacific islands. These two thousand branch banks scattered over the world have assisted European capitalists in making investments abroad and have, without doubt, been of great assistance to the foreign trade of European countries.

Closely connected with international banking facilities are agencies for financing and promoting American trade and industrial enterprises. As this paper is being written, announcement is made of the incorporation in New York State of the American International Corporation with a capital stock of fifty million dollars. This company is closely affiliated with the National City Bank, whose president is the chairman of the board of directors of the International Corporation. The purposes of the formation of the new corporation, as stated by its president, Mr. Charles A. Stone, of the firm of Stone and Webster of Boston, is to do "an international business and to promote trade relations with different countries which will help make a world market for our products; for the financing and promoting the development in foreign countries by American engineers and manufacturers of great public and private undertakings; for the assisting in financing and the rehabilitation of industries in foreign countries; for the purpose of undertaking such domestic business as seems advantageous in connection therewith."

Mr. Frank A. Vanderlip, the chairman of the board of directors of this corporation, states that the formation of the company "is the logical thing to do at this time. It [the company] will stand for the development of America along financial and commercial lines and will tend to sustain America's position. . . . This is not a banking project, the National City Bank will do what banking business is necessary."

Companies such as the newly organized American International Corporation can be of great aid in the development of the foreign trade of the United States. By bringing about a greater use of American capital in foreign industries and enterprises a sure basis

<sup>2</sup> See *Modern Business Supplement*, 3d quarter, 1915, pp. 298-299, issued by The Alexander Hamilton Institute, New York City.

will be laid for a larger trade between the United States and other countries. The foreign commerce of Germany, Great Britain, France, Belgium, and Holland has been greatly assisted by the foreign investment of the capitalists of those countries. The destruction of capital now taking place in Europe will probably limit, for some time to come, the foreign investments of European capitalists, and will increase the opportunity for American financiers to engage in foreign industrial and commercial enterprises.

The European War has brought about a notable change in the attitude of the American people towards the merchant marine. The public realizes more than ever before how completely the foreign trade of the United States is dependent upon the services of ships under foreign flags, and, during the past year there has been almost constant discussion in the press and on the rostrum of possible ways and means for building up the American merchant marine. Unfortunately, no program of legislative action has yet been formulated that promises very large results. The problem of increasing the merchant marine to adequate proportions within a reasonable period of time is still unsolved and calls for serious study on the part of legislators, economists, business organizations, and men engaged in the transportation business.

The importance to American commerce of having a larger tonnage of ships under the national flag is not seriously questioned. It is quite true that freight rates in times of peace do not depend upon the flag of the vessels that perform the transportation services, and that the owner of a ship or manager of a line of vessels ordinarily serves one shipper as willingly as another; in time of war, however, shippers and consignees of neutral countries are limited to the services of vessels under the tonnage of the national flag, of vessels of neutral foreign countries, and of such ships of belligerent countries as may be available and may be safely used. The burden placed by the present war upon the commerce of the United States and other neutral countries is extremely heavy. Freight rates are many times their normal figure, and the shortage of tonnage has seriously limited the foreign trade of the United States, in spite of the fact that the seas are controlled by the belligerent country under whose flag nearly one half of the deep-sea tonnage of the world is operated. If the European War were being waged upon the sea as widely as it is being fought on land, the foreign commerce of the United States would be practically paralyzed at the present time.

While no one will seriously question the advantage of having a

large merchant marine under the national flag during such a war as is now in progress, there are those who question the commercial necessity of a merchant marine under the national flag during times of peace. Merchant vessels of all nations, it is argued, compete with each other to secure the traffic of all countries; and, freight rates on the ocean being subject to this competition, it does not matter to the people of the United States, or of any country, whether their commerce be handled in ships of national or foreign register. The argument, however, is not convincing.

The traders in a country having a large foreign trade require the services both of vessels operated under charters and of steamship lines running to the principal markets of foreign countries. The steamship line provides a service at regular intervals. Its agents solicit the freight of small shippers as well as large ones and thus are of assistance to exporters who begin in a small way to build up a foreign trade. Moreover, there is no doubt that the managers of a steamship line will seek most actively to develop the traffic to and from their own country. A steamship line under the national flag is an agency for the development of foreign trade.

The importance to a country's foreign commerce of having under the national flag a large tonnage of vessels that may be operated under charters, i.e., "tramp" steamers, is not so definite nor so vital as is the advantage of having a number of vigorous steamship lines under the national flag; but it can hardly be doubted that the commerce of Great Britain has been much aided by the enormous tonnage of British steamers operated under charters. The foreign commerce of Great Britain must derive substantial benefit from having more complete ocean transportation facilities than has the foreign commerce of any other country.

If one result of the European War should be to impress strongly upon the people of the United States the advantage of having a larger tonnage of shipping under the national flag, is it too much to hope that Congress will earnestly seek to adopt a maritime policy intended to assist in building up the American marine? Up to the present time differences of opinion without and within Congress have prevented constructive legislation regarding the merchant marine, but the European War may, and ought to, make it possible for the advocates of different merchant marine policies to agree as to the desirability of creating a federal shipping board or of adding to an enlarged Interstate Commerce Commission a marine department. Such a shipping board, or marine department, consisting of three commissioners expert in maritime



matters, would be a logical agency through which to act in developing a larger merchant marine.

While it is not the purpose of this paper to discuss the policy that should be adopted by Congress for the development of the merchant marine, it may be suggested, in passing, that the proposed shipping board or marine department might well be directed by Congress to investigate the shipping and navigation laws of the United States and other countries, and to report, for adoption by Congress, a revised code of maritime laws under which American shipping may compete upon fair terms with shipping under foreign flags. It would also seem wise for Congress to make a liberal appropriation of funds to be expended by the shipping board in aid of a limited number of steamship lines from the United States to foreign countries. Congress should leave to the board the selection of the lines to be aided, the amounts to be paid, and the determination of the provisions of the contracts made on behalf of the United States with the lines aided. This method of procedure would give promise of better results than can be obtained by the passage of subsidy laws such as have previously been enacted by Congress. The development of American shipping, whether by subvention or otherwise, is an administrative task that should be intrusted to an able body of experts vested with ample discretionary powers.

The proposed shipping board or marine department should not have the power to engage in the steamship business, either directly or indirectly. It would be a mistake for Congress to adopt the policy of the government ownership of ocean vessels, or of the operation of vessels through the agency of a corporation controlled by the government.

Adequate ocean transportation by ships under the American flag can be secured only by making the ownership and operation of vessels profitable. Private capital and initiative must be depended upon to bring about the development of the American merchant marine. In the long run, legislation can only aid in making the business of ocean transportation attractive to owners of private capital and to men ambitious to devote their energies to the management of steamship lines. Ocean transportation is not a business adapted to government ownership and management.

The European War has, without doubt, convinced the people of the United States of the inadequacy of the merchant marine under the national flag; but the merchant marine, important as it is, is only one of three links in the chain of facilities required for

the transportation of the import and export trade of the United States. The other parts of the chain are the railways which provide inland transportation, and the seaboard terminals at which rail and water carriers exchange traffic. The strength of the chain as a whole is the strength of each link.

To meet successfully the keen competition for the world's international trade that will prevail after the war, the foreign commerce of the United States will require the services of seaboard terminals at which traffic may be exchanged between railways and ocean carriers with maximum dispatch and minimum cost. The importance to commerce of efficient terminals is more fully realized in some foreign countries than it is in the United States. Liverpool, Antwerp, Rotterdam, Hamburg, and other European ports are planned, equipped, and administered with a view to minimizing the expenses of foreign commerce. When, after the war, American manufacturers and merchants have to compete with foreign producers and traders striving earnestly to regain lost ground, the necessity for a more systematic development of American ports can hardly fail to be realized. Should this prophecy come true, we may see the railroad companies and state and municipal authorities co-operating in harbor and terminal improvements, and we may see ports developed according to plans that will provide specialized facilities for different kinds of traffic, that will insure the physical connection of the railroads with the ocean carriers at all piers and wharves, both private and public, and that will so unify all transportation facilities as to secure for each port maximum efficiency and economy in the handling of both foreign and domestic commerce.

As a closing word, it may be well to suggest the necessity of being on guard against overestimating the probable effects which the European War will have upon American commerce. International financial and trade relations that have been slowly built up and firmly established are not easily changed. The present war has given the United States an opportunity to secure a larger place in the world's trade; but the permanency of the advance that may be made while the war is in progress will depend upon whether capitalists in the United States desire to participate largely in the industrial development of South America, Asia, and Africa, whether American manufacturers and merchants shall decide to strive systematically and persistently to increase foreign trade, and whether the Federal Government shall make the promotion of foreign trade a definite aim.